

FARMERS INSURANCE EXCHANGE

**4680 Wilshire Blvd.
Los Angeles, California 90010**

NAIC COMPANY CODE 21652

TARGETED MARKET CONDUCT EXAMINATION REPORT

as of September 30, 2004

**EXAMINATION PERFORMED BY INDEPENDENT CONTRACTORS
AND
DIVISION OF INSURANCE STAFF
FOR THE
COLORADO DEPARTMENT OF REGULATORY AGENCIES
DIVISION OF INSURANCE**

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4680 Wilshire Blvd.
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**TARGETED MARKET CONDUCT
EXAMINATION REPORT
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Prepared by

**Jeffory A. Olson, CIE, FLMI, AIRC, ALHC
Chief Market Conduct Examiner**

And

Cliff Hinson, Investigator

Colorado Division of Insurance

April 11, 2006

The Honorable David F. Rivera
Commissioner of Insurance
State of Colorado
1560 Broadway Suite 850
Denver, Colorado 80202

Commissioner Rivera:

In accordance with §§ 10-1-203 and 10-3-1106, C.R.S., a targeted Market Conduct examination of the private passenger automobile total loss claims practices of Farmers Insurance Exchange has been conducted. The Company's records were examined at its Colorado Springs Service Center, 3500 N. Nevada Ave. Colorado Springs, CO 80907.

The examination covered the period from January 1, 2003 through September 30, 2004.

A report of the examination of Farmers Insurance Exchange is, herewith, respectfully submitted.

Jeffory A. Olson, CIE, FLMI, AIRC, ALHC
Chief Market Conduct Examiner

Cliff Hinson
Investigator

**TARGETED MARKET CONDUCT
EXAMINATION REPORT
OF THE
FARMERS INSURANCE EXCHANGE**

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COMPANY PROFILE

Farmers Insurance Exchange, hereinafter referred to as "the Company", was organized on March 28, 1928 in Los Angeles, California and commenced business in California on April 6, 1928. The Company is currently licensed in Alabama, Arizona, Arkansas, California, Colorado, District of Columbia, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Jersey, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, South Carolina, Tennessee, Texas, Utah, Virginia, Washington, Wisconsin, and Wyoming. Farmers Insurance Exchange was licensed in Colorado on November 6, 1930 as a reciprocal or inter-insurance exchange.

*As of the calendar year 2004 the Company reported written premium in Colorado of \$286,259,000 for Private Passenger Automobile Insurance, representing a 10.17 % market share.

*Data as reported in the 2004 Colorado Insurance Industry Statistical report.

PURPOSE AND SCOPE OF EXAMINATION

This targeted market conduct examination was conducted by independent contract examiners who were assisted by Colorado Division of Insurance (Division) staff for the purpose of examining certain business practices of insurers within the Farmers Insurance Group of companies. The companies included within the scope of this exam were Farmers Insurance Exchange, Truck Insurance Exchange, and Mid-Century Insurance Company (companies). This procedure is in accordance with Colorado Insurance Law §10-1-204, C.R.S., which empowers the Commissioner to supplement his resources to conduct market conduct examinations. The findings in this report, including all work products developed in the production of this report are the sole property of the Colorado Division of Insurance.

The purpose of the examination was to determine the Companies' compliance with Colorado insurance laws and with generally accepted operating principles related to private passenger automobile insurance. The examination resulted from an investigation of complaints alleging that the Companies, in some cases, had sold vehicles that had been determined to be a total loss without providing required and/or proper disclosure of the type and extent of damage. The primary focus of the examination was on the Companies' handling of total loss automobile claims, including the communications between the Companies and insureds, claimants, and other involved parties regarding the disposition of vehicles that were determined to be a total loss. Examination information contained in this report should serve only these purposes. The conclusions and findings of this examination are public record. The preceding statements are not intended to limit or restrict the distribution of this report.

Issues related to salvage titling and the handling of total loss vehicle claims have been an ongoing concern for several years. Some of the allegations made by consumers and the media against insurance companies in general are that they have engaged in intentional violations of law as a method to recover some of their claims losses. Specifically, the allegations include:

- Insurance companies advising claimants that their vehicle was not worthy of repair, but then selling the vehicle with a clean (non-salvage) title.
- Insurance companies intentionally misinforming auto auction houses, purchasers, or others about the condition of a vehicle they are trying to sell.
- Insurance companies selling vehicles that had been declared a total loss without obtaining a salvage title.
- Insurance companies actively participating in the transfer of vehicles across state lines to avoid salvage title branding.

Although the majority of laws that pertain to the sale and titling of total loss vehicles fall under the jurisdiction of the Division of Motor Vehicles within the Colorado Department of Revenue, Colorado insurance laws require insurers to abstain from deceptive or misleading practices, and to keep, observe, and practice the principles of law and equity in all matters pertaining to the business of insurance. This includes ensuring that the information provided to insureds, claimants and others is not untrue, deceptive or misleading with regard to the type and extent of damage to an insured or claimant's vehicle, as well as the true disposition of the damaged vehicle.

Colorado motor vehicle laws define a "salvage vehicle" as a vehicle less than six years old that is damaged by collision, fire, flood, accident, trespass, or other occurrence, excluding hail damage, to the extent that the cost of repairing the vehicle to a roadworthy condition and for legal operation on the highways exceeds the vehicle's retail fair market value immediately prior to such damage. Once a vehicle has been declared a total loss as defined above, the owner (including an insurance company that acquired the vehicle in connection with a claim settlement) must apply for a salvage title before the vehicle can be sold. The application for salvage title must include disclosure of the type of damage (excluding hail) resulting in salvage. In Colorado, the Farmers Group of Companies has contracted with

Klode Salvage Distribution Center, Inc., (Klode) almost exclusively for the disposal of vehicles that have been declared a total loss.

This examination was governed by, and performed in accordance with, procedures developed by the National Association of Insurance Commissioners and the Colorado Division of Insurance. In reviewing material for this report, the examiners relied primarily on records and materials maintained by the Companies. This targeted examination covered the Companies' operations, from January 1, 2003 through September 30, 2004.

File sampling was based on a review of the claims files that were randomly selected using ACL™ software and computer data files provided by the companies. Upon review of each file any concerns or discrepancies were noted on comment forms and delivered to the Companies for review. Once the Companies were advised of a finding contained in a comment form, the Companies had the opportunity to respond. For each finding the Companies were requested to agree, disagree or otherwise justify the Company's noted actions. Reference to any practices, procedures, or files, which manifested no improprieties was omitted from this report.

The report addresses only private passenger automobile total loss claims issues, and contains information regarding exceptions to Colorado insurance law. The examination included review of the following:

1. Company Operations and Management
2. Claims Practices

Certain unacceptable or non-complying practices may not have been discovered in the course of this examination. Additionally, findings may not be material to all areas that would serve to assist the Commissioner. Failure to identify or criticize specific Company practices does not constitute acceptance by the Division. Examination findings may result in administrative action by the Division.

EXAMINERS' METHODOLOGY

The examiners reviewed the Company's private passenger automobile claims practices to determine compliance with the Colorado insurance laws as outlined in Exhibit 1.

Exhibit 1

Law	Subject
Section 10-1-128	Fraudulent Insurance Acts.
Section 10-4-413	Records required to be maintained
Section 10-4-613.	Glass repair and replacement.
Section 10-4-717	Inter-company arbitration.
Section 10-3-1104	Unfair methods of competition and unfair or deceptive acts or practices.
Regulation 1-1-7	Market Conduct Record Retention.
Regulation 1-1-8	Penalties And Timelines Concerning Division Inquiries And Document Requests.
Regulation 6-2-1	Complaint Record Maintenance.

Company Operations/Management

The examiners reviewed Company management, implementation, quality controls, record retention, and timely cooperation with the examination process.

Complaints

The examiners reviewed thirty-eight (38) Division and Company complaints for total losses to determine handling activity for the period under examination.

Claims

For the period under examination, the Division selected the following random samples to determine compliance with total loss claims handling practices and manual rules:

Review Lists	Population	Sample Size	Percentage to Population
Claims Paid – Total Losses	2,907	300*	10.4%
Claims Paid – Total Losses	2,100	100**	4.7%

*An initial sample size of 300 total loss claims was chosen due to the fact that the claims data from which the sample was selected represented three (3) separate companies that were included in the examination.

**An additional sample of 100 total loss claims was requested and reviewed due to concerns regarding the accuracy of the findings in the initial sample. The examiners experienced numerous problems with inconsistent information in the company's responses, as well as incomplete responses to numerous information requests. Therefore, an additional sample of 100 claims was requested to verify the results of the findings. Therefore, the findings in the claims portion of the report pertain only to the review of the additional 100 total loss claim files.

EXAMINATION REPORT SUMMARY

Although the primary focus of this examination was on Farmers Insurance Exchange, it was agreed by the Company and the Division that since claims operations, management, location and handling were similar for all three (3) companies (Farmers Insurance Exchange, Truck Insurance Exchange, and Mid-Century Insurance Company) of the Farmers Insurance Group, the examiners would review a mixed sample of claims from all three companies and “deem” any findings as applicable to all three companies. However, the Division reserved the right to further examine any company of the group if circumstances arose that warranted additional examination.

The examination resulted in four (4) issues arising from the Company’s apparent failure to comply with Colorado insurance laws that govern all property and casualty insurers operating in Colorado. These findings are deemed to apply to all three (3) companies as explained above.

Company Operations and Management:

The examiners identified one (1) area of concern during the review of the company’s operations:

- **Failure, in some cases, to maintain records required for market conduct purposes.**

In addition to the above issue, the examiners experienced numerous delays that were related to requested information. Many of these delays were the result of incomplete responses or changes in the company’s responses with regard to the availability of the requested information. These delays in providing complete and accurate information resulted in a significant delay in the completion of the exam, as well as the need to review an additional sample of total loss claims to verify the accuracy of the findings in the initial claims sample.

Claim Practices:

The examiners identified three (3) areas of concern during the review of the company’s claims practices:

- **Failure to provide accurate information to insureds, claimants, and/or lienholders regarding the disposition of vehicles that were declared a “total loss”.**
- **Failure, in some cases, to provide accurate damage information on applications for salvage titles submitted in connection with total loss claims.**
- **Failure, in some cases, to provide disclosure of damage on total loss vehicles by applying for out-of-state (Pennsylvania) salvage titles.**

A copy of the Company’s response, if applicable, can be obtained by contacting the Company or the Division. Results of previous Market Conduct Exams are available on the Division’s website at www.dora.state.co.us/insurance or by contacting the Division.

FARMERS INSURANCE EXCHANGE

PERTINENT FACTUAL FINDINGS

COMPANY OPERATIONS AND MANAGEMENT

Issue A: Failure, in some cases, to maintain records required for market conduct purposes.

Colorado Regulation 1-1-7, effective June 1, 2003, promulgated under the authority of § 10-1-109, C.R.S., states in part:

...

Section 4. RECORDS REQUIRED FOR MARKET CONDUCT PURPOSES

- A. Every entity subject to the Market Conduct process shall maintain its books, records, documents and other business records in a manner so that the following practices of the entity subject to the Market Conduct process may be readily ascertained during market conduct examinations, including but not limited to, *company operations and management, policyholder services, claim's practices*, [emphasis added] rating, underwriting, marketing, complaint/grievance handling, producer licensing records, and additionally for health insurers/carriers or related entities: network adequacy, utilization review, quality assessment and improvement, and provider credentialing. Records for this regulation regarding market conduct purposes shall be maintained for the current calendar year plus two prior calendar years.

...

Section 6. CLAIM RECORDS

The claim records shall be maintained so as to show clearly the inception, handling and disposition of each claim. The claim records shall be sufficiently clear and specific so that pertinent events and dates of these events can be reconstructed.

- A. The record shall include at least the notification of claim, proof of loss, (or other form of claim submission) claim forms, proof of claim payment check or draft, notes, contract, declaration pages, information on type of coverage, endorsements or riders, work papers, *any written communication, any documented or recorded telephone communication related to the handling of a claim, including the investigation, payment or denial of the claim, and any claim manuals or other information necessary for reviewing the claim.* [Emphasis added.] Where a particular document pertains to more than one record, insurers may satisfy the requirements of this paragraph by making available, at the site of a market conduct examination, a single copy of each document.
- B. Documents in a claim record received from an insured, the insured's agent, a claimant, the department or any other insurer shall bear the initial date of receipt date-stamped by the insurer in a legible form in ink, an electronic format, or some other permanent manner. Unless the company provides the examiners with written procedures to the contrary, the earliest date stamped on a document will be considered the initial date of receipt.

- C. If an insurer, as its regular business practice, places the responsibility for handling certain types of claims upon company personnel other than its claims personnel, the insurer need not duplicate its records for maintenance by claims personnel. These claims records shall be maintained as part of the records of the insurer's operations and shall be readily available to examiners.

...

Section 10. LOCATION OF RECORDS

- A. *All records required to be maintained under this regulation shall be kept in a location or locations that will allow the records to be produced for examination within the time period required under Section 11.* [Emphasis added.]
- B. If required by law or otherwise available, the insurer shall maintain disaster preparedness or disaster recovery procedures that include provisions for the maintenance or reconstruction of original or duplicate records at another location.

Section 11. TIME LIMITS TO PROVIDE RECORDS AND TO RESPOND TO EXAMINERS

- A. An insurer/carrier shall provide any record requested by any examiner as required by Regulation 1-1-8 or such other time period as mutually agreed upon by the examiner and the insurer/carrier. *When the requested record is not or cannot be produced by the insurer/carrier within the specified time period, a violation shall be deemed to have occurred, unless the insurer/carrier can demonstrate to the satisfaction of the commissioner that the requested record cannot reasonably be provided within the specified time period of the request through no fault of its own, its agents or its contracted third party administrator.* [Emphasis added.]
- B. As a means to facilitate the examination, an insurer/carrier under examination shall provide a written response to an inquiry submitted by an examiner as required by Regulation 1-1-8 or such other time period as mutually agreed upon by the examiner and the insurer/carrier. When the requested response is not provided by the insurer/carrier within the specified time period, a violation shall be deemed to have occurred, unless the insurer/carrier can demonstrate to the satisfaction of the commissioner that the requested response cannot reasonably be provided within the specified time period of the inquiry through no fault of its own, its agents or its contracted third party administrator.

During the review of the total loss claim files selected in both samples, it was noted that many (approximately 50%) of the claim files did not contain total loss packet documents. This appears to be inconsistent with the Company's Claim Representative Field Guide (Auto Physical damage) dated July 2003, page 9, which states in part;

IV. TOTAL LOSS SETTLEMENT AND DOCUMENT PROCESS

B. Common Total loss Document Process

- As soon as it is determined that a customer's vehicle maybe a total loss, it is the responsibility of the CR to ensure the customer receives a total loss packet. If not delivered to the customer in person, the total loss packet should be sent via overnight mail.
- *The total loss packet provides detailed instructions about the enclosed paperwork. It includes instructions for the customer...* [Emphasis added.]
- *The total loss packet includes required documents and a customer letter explaining the process.* [Emphasis added.] Each zone/State has developed a letter in compliance with state specific language or requirements.

It appears that the company is not in compliance with Colorado insurance law in that the documents normally included in the total loss packets would be included in the category of claim related documents that are required to be maintained and provided to examiners upon request as outlined in Regulation 1-1-7.

In addition, the company was unable to provide copies of the applications and actual salvage titles within the required time period. The company initially provided only six (6) salvage vehicle damage disclosure statements out of 300 that were requested. These six (6) damage disclosure statements pertained to vehicles that had been sold with “clean” (non-salvage) titles. The examiners subsequently clarified that they were seeking the “applications for salvage titles” which included a section to identify the type of damage. Due to the fact that these applications for salvage title were not maintained in the claim files, the Company had the salvage vendor (Klode) provide reprinted copies. However, since these were recreated from the salvage vendor’s system and not copies of the actual applications, some of the data (e.g. date of issue) was missing or inaccurate. The Company ultimately had to request copies of the actual applications for salvage title from the Department of Motor Vehicles, which resulted in a significant delay in providing that information to the examiners.

Recommendation # 1:

Within thirty (30) days, the Company should provide documentation demonstrating why it should not be considered in violation of Regulation 1-1-7. In the event the Company is unable to provide such documentation, it should be required to provide evidence to the Division that it has reviewed its procedures for maintaining complete record documentation and implemented necessary procedural changes in order to ensure compliance with Colorado insurance law.

CLAIMS PRACTICES

Issue B: Failure to provide accurate information to insureds, claimants, and/or lienholders regarding the disposition of vehicles that were declared a “total loss”.

Section 10-3-1104, C.R.S., states in part:

- (1) The following are defined as unfair methods of competition and unfair or deceptive acts or practices in the business of insurance:

...

- (b) False information and advertising generally: Making, publishing, disseminating, circulating, or placing before the public, or causing, directly or indirectly, to be made, published, disseminated, circulated, or placed before the public, in a newspaper, magazine, or other publication, or in the form of a notice, circular, pamphlet, letter, or poster, or over any radio or television station, or in any other way, an advertisement, announcement, or statement containing any assertion, representation, or statement with respect to the business of insurance, or with respect to any person in the conduct of his insurance business, which is untrue, deceptive, or misleading;

The following chart illustrates the significance of error versus the population and sample examined:

Private Passenger Auto Total Loss Claims Paid

Population	Sample Size	Number of Exceptions	Percentage to Sample
2,100	100	63	63%

An examination of 100 files, representing approximately 5% of all total loss claims paid by the Company during the examination period, showed sixty-three (63) exceptions (63% of the sample) wherein the Company provided the insured, claimant, and/or lienholder with information regarding the insured vehicle that appeared to be untrue, deceptive and misleading.

In cases where a lienholder was involved, the Company used various versions of a letter to advise the insured, claimant, and/or lienholder that the insured vehicle had been declared a total loss. Although the exact wording varied somewhat among the various versions, the letters in the sixty-three (63) cited files all indicated that the subject vehicle *had been destroyed and declared a total loss*. [Emphasis added.] One version of these letters which insureds were required to sign, included the same “destroyed and declared a total loss” information, and authorized the lienholder to endorse the title (or lien release) to be forwarded to the Company.

This information appears to be untrue, deceptive and misleading in that none of the vehicles in question had actually been “destroyed”, and all were subsequently sold as salvage or in some cases with a “clean” (non-salvage) title. In one case, a vehicle that had been stolen was reported to the lienholder as having been destroyed and declared a total loss even though it had not yet been recovered. This vehicle was later recovered with no apparent damage and sold by the Company with a “clean” title.

Advising insureds, claimants and/or lienholders that their vehicle has been destroyed, and then selling the vehicle as salvage or with a clean title, appears to be untrue, deceptive and misleading. Insureds are entitled to know the true disposition of their vehicle so that they can appropriately exercise their rights, which include retaining the vehicle, and determining whether the settlement offered by the insurer is fair. The information provided by the Company could cause a consumer to believe their vehicle has been destroyed, and then later see it back in operation on the street, or offered for sale on a used car lot.

Recommendation # 2:

Within thirty (30) days, the Company should provide documentation demonstrating why it should not be considered in violation of Section 10-3-1104, C.R.S. In the event the Company is unable to provide such documentation, it should be required to provide evidence to the Division that it has revised its communications to provide accurate information regarding the disposition of vehicles declared a total loss to ensure that communications are not untrue, deceptive or misleading, and are in compliance with Colorado insurance law.

Issue C: Failure, in some cases, to provide accurate damage information on applications for salvage titles submitted in connection with total loss claims.

Section 10-3-1104, C.R.S., states in part:

- (1) The following are defined as unfair methods of competition and unfair or deceptive acts or practices in the business of insurance:

...

- (b) False information and advertising generally: Making, publishing, disseminating, circulating, or placing before the public, or causing, directly or indirectly, to be made, published, disseminated, circulated, or placed before the public, in a newspaper, magazine, or other publication, or in the form of a notice, circular, pamphlet, letter, or poster, or over any radio or television station, or in any other way, an advertisement, announcement, or statement containing any assertion, representation, or statement with respect to the business of insurance, or with respect to any person in the conduct of his insurance business, which is untrue, deceptive, or misleading;

The following chart illustrates the significance of error versus the population and sample examined:

Private Passenger Auto Total Loss Claims Paid

Population	Sample Size	Number of Exceptions	Percentage to Sample
2,100	100	12	12%

An examination of 100 files, representing approximately 5% of all total loss claims paid by the Company during the examination period, showed twelve (12) exceptions (12% of the sample) wherein the damage recorded in the files was inconsistent with the damage reported on the application for salvage title.

The following information provides a brief summary of the findings:

- Two (2) files indicated “collision” on the application for salvage title, while the information in the file indicated “fire” as the primary type of damage.
- Seven (7) files indicated “collision” on the application for salvage title, while the information in the file indicated “under carriage” as the primary type of damage.
- Three (3) files indicated “theft/stripped” on the application for salvage title, while the information in the file indicated “collision” as the type of primary type of damage.

In addition to the above findings, the Company indicated that its salvage vendor utilized a computerized database to capture and generate information in the creation of the "Application for Salvage Title". This database utilized specific processing language to determine "type of damage" to list on the application for salvage title. If at the time of assignment, the "primary damage" field was listed as "unknown point of impact" or the field was left blank, the system defaulted to indicate "Theft/Stripped" on the application for salvage title during the exam period.

The Company also stated that the system was modified in October 2004, to default to indicate "Collision" if the primary damage field was left blank or was listed as "unknown point of impact" at the time of assignment. In addition, the Company indicated the type of damage information is now verified at the time the vehicle is checked in at the salvage vendor's location providing an immediate update of the information within the database. The Company believes these changes will alleviate the types of errors noted during the exam period.

It appears that setting the database to default to indicate "Theft/Stripped" whenever the primary damage field was blank or indicated "unknown point of impact", or providing an inaccurate description of the primary type of damage on the application for salvage title resulted in the reporting of untrue, deceptive and misleading information on the application for salvage title. It is important for the description of the type of damage that resulted in the vehicle being declared a total loss to be accurate since it has a direct impact on the salvage value of the vehicle, as well as the safety of the vehicle if it is subsequently purchased with the intent of being rebuilt for future highway use by consumers.

A person may be more inclined to purchase a vehicle identified as "theft/stripped" than a vehicle with damage reported as "undercarriage", "collision" or "fire", since the former doesn't necessarily indicate structural damage to the integrity of the vehicle. Therefore, having the program default to "theft/stripped" resulted in untrue, deceptive and misleading information with regard to the damage that caused the vehicle to be declared a total loss. Although the Company's system was later modified to default to "collision", this could be still be problematic since a vehicle could have sustained other damage, such as flood damage, which could cause multiple problems with electrical systems and other corrosion issues that may not be visible and may not appear for several months or even years.

Recommendation # 3:

Within thirty (30) days, the Company should provide documentation demonstrating why it should not be considered in violation of Section 10-3-1104, C.R.S. In the event the Company is unable to provide such documentation, it should be required to provide evidence to the Division that it has reviewed its damage reporting procedures to ensure it provides complete and accurate damage disclosure information on all vehicles that have been declared a total loss in compliance with Colorado insurance law.

Issue D: Failure, in some cases, to provide disclosure of damage on total loss vehicles by applying for out-of-state (Pennsylvania) salvage titles.

Section 10-3-1104, C.R.S., states in part:

- (1) The following are defined as unfair methods of competition and unfair or deceptive acts or practices in the business of insurance:

...

- (b) False information and advertising generally: Making, publishing, disseminating, circulating, or placing before the public, or causing, directly or indirectly, to be made, published, disseminated, circulated, or placed before the public, in a newspaper, magazine, or other publication, or in the form of a notice, circular, pamphlet, letter, or poster, or over any radio or television station, or in any other way, an advertisement, announcement, or statement containing any assertion, representation, or statement with respect to the business of insurance, or with respect to any person in the conduct of his insurance business, which is untrue, deceptive, or misleading;

The following chart illustrates the significance of error versus the population and sample examined:

Private Passenger Auto Total Loss Claims Paid

Population	Sample Size	Number of Exceptions	Percentage to Sample
2,100	100	32	32%

An examination of 100 files, representing approximately 5% of all total loss claims paid by the Company during the examination period, showed thirty-two (32) exceptions (32% of the sample) wherein the Company initially failed to disclose the nature and extent of damage sustained by Colorado registered vehicles that had been declared a total loss by applying for salvage titles in the state of Pennsylvania instead of in Colorado.

The examiners noted that the Pennsylvania application for salvage title does not require the same type of damage disclosure that is required on the Colorado application. Therefore, an individual who purchased a salvage vehicle that had been titled in Pennsylvania would not know the type or extent of damage that resulted in the vehicle being declared a total loss.

When questioned why it had applied for salvage titles in Pennsylvania, the Company indicated it was due to a backlog in obtaining salvage titles in Colorado. The examiners noted that the Colorado motor vehicle department apparently became aware of this practice, and advised the Company to stop. The Company was also required to resubmit applications for salvage titles in Colorado for those vehicles that had been inappropriately titled in Pennsylvania but had not yet been sold. All but one of the vehicles that had originally been titled in Pennsylvania were subsequently re-titled with Colorado salvage titles. The one exception vehicle had already been sold by the time the Company was ordered to discontinue the practice by the Colorado motor vehicle department.

Recommendation # 4:

Within thirty (30) days, the Company should provide documentation demonstrating why it should not be considered in violation of Section 10-3-1104, C.R.S. In the event the Company is unable to provide such documentation, it should be required to provide evidence to the Division that it has reviewed its procedures for obtaining salvage titles to ensure that the type and extent of damage is disclosed on all vehicles that have been declared a total loss in compliance with Colorado insurance law.

Summary of Recommendations

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The following individuals participated in this targeted market conduct examination

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